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**EX PARTE**

William F. Caton, Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W., Room 222  
Washington, D.C. 20554

**RE: CC Docket Nos. 96-45 and 96-262**

Dear Mr. Caton:

On April 14, 1997, Steven G. Sanders of the Western Alliance (a consortium of the Western Rural Telephone Association and the Rocky Mountain Telecommunications Association), and Benjamin H. Dickens, Jr. and Gerard J. Duffy of this firm met with Timothy A. Peterson and Richard Smith of the Commission's Common Carrier Bureau. The purpose of the meeting was to discuss the services provided by the rural telephone companies in the Western Alliance, the technical and economic problems of furnishing these services, and the impact of certain Commission and Joint Board proposals on the future availability of quality services at affordable rates in Rural America.

Mr. Sanders provided information regarding the history, goals and services of his company, the Northern Arkansas Telephone Company, Inc. (NATCO). He told how NATCO had been founded by his father, and how it had grown to serve a number of small towns and surrounding areas in the rural Ozark region of Northern Arkansas. He discussed NATCO's efforts to bring businesses and tourists to its service area, and stated that Universal Service funding and other explicit and implicit support were essential to NATCO's ability to serve a rural area with loop costs three times the size of the national average. If support were significantly curtailed, Mr. Sanders stated that NATCO could adapt only by declining service requests from customers in outlying areas, and focusing on serving only less expensive customers in towns.

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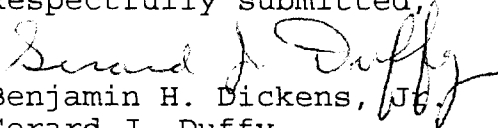
Mr. Sanders addressed the Joint Board's proposals to exclude second residential lines and multiple-line businesses from the Universal Service program. The second line proposal would substantially increase the cost (and, hence, curtail the availability) of Internet access in rural homes, at the very same time that the Clinton-Gore Administration was trying to promote Internet access in schools and libraries. The multiple-line business proposal will not only discourage relocation of businesses to rural areas, but will also adversely impact the existing major business services customers of rural telephone companies -- namely, schools, libraries, and government agencies.

Mr. Sanders also discussed the problem that proxy models are unlikely ever to provide accurate measures of the costs of rural telephone companies. Rural telephone companies were started to serve areas that the Bell System and other large carriers did not want to serve, and they have developed along paths unique to their specific service areas. Proxy models will create arbitrary winners and losers, and will ultimately be more difficult and expensive to administer than the present actual cost system. In fact, the present system has built-in safeguards -- for example, loan review by the Rural Utilities Service and financial institutions, and Commission and state commission ability to disallow imprudent investments -- that discourage inefficiency.

Mr. Sanders emphasized that the critical policy issue is the ability of rural telephone companies to continue meeting rural infrastructure and service needs in a time of rapidly changing technology. For decades, rural telephone companies have been the only entities willing to serve specific rural areas. This fact is borne out by the Bureau's study area waiver files, which highlight the different services and facilities provided by rural telephone companies in rural areas vis-a-vis those of their RBOC, GTE and Sprint counterparts.

If the present and future service capabilities of rural telephone companies are weakened by reductions in interstate support, the burdens are not likely to be picked up by wireless carriers. Mr. Sanders spoke of his experience with cellular service, and stated that the hilly terrain and dense foliage of northern Arkansas and many other rural areas preclude wireless services from becoming an adequate substitute for wireline service.

Respectfully submitted,

  
Benjamin H. Dickens, Jr.  
Gerard J. Duffy

cc: Timothy A. Peterson  
Richard Smith